**ANALYZING FINANCIAL STATEMENTS AND VARIANCE ANALYSIS**

In [budgeting](http://en.wikipedia.org/wiki/Budget) (or [management accounting](http://en.wikipedia.org/wiki/Management_accounting) in general), a **variance** is the difference between a budgeted, planned or standard cost and the actual amount incurred/sold. Variances can be computed for both costs and revenues.

The concept of variance is intrinsically connected with planned and actual results and effects of the difference between those two on the performance of the entity or company.

Variances can be divided according to their effect or nature of the underlying amounts.

When **effect of variance** is concerned, there are two types of variances:

* When actual results are better than expected results given variance is described as favorable variance. In common use favorable variance is denoted by the letter F - usually in parentheses (F).
* When actual results are worse than expected results given variance is described as adverse variance, or unfavourable variance. In common use adverse variance is denoted by the letter U or the letter A - usually in parentheses (A).

Variances can be computed in two different ways:

* Dollar Value
* Percentage

To calculate a variance for each does the following:

**Dollar Value**: You will compare the budgeted amount to the actual amount. Then in the variance column indicate whether the amount is positive or negative from the budget amount. Example:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Budget 1 Jan to 30 Apr** | **Actual 1 Jan to 30 Apr** | **Variance $** |
| **Income** |  |  |  |
| Govt Grant | 15,000.00 | 20,000.00 | 5,000.00 |
| Sponsorship | 3,500.00 | 3,750.00 | 250.00 |
| Membership Fees | 2,800.00 | 2,650.00 | -150.00 |
| Events Income | 4,200.00 | 7,735.00 | 3,535.00 |
| Profits from [Trading](http://www.leoisaac.com/fin/fin039.htm) | 14,800.00 | 12,900.00 | -1,900.00 |
| Other Income | 280.00 | 570.00 | 290.00 |
| **Total** | **40,580.00** | **47,605.00** | **7,025.00** |

**Percentage:** Variance in Dollars / Budget Amount

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Budget 1 Jan to 30 Apr** | **Actual 1 Jan to 30 Apr** | **Variance $** | **Variance %** |
| **Income** |  |  |  |  |
| Govt Grant | 15,000.00 | 20,000.00 | 5,000.00 | 33% |
| Sponsorship | 3,500.00 | 3,750.00 | 250.00 | 7% |
| Membership Fees | 2,800.00 | 2,650.00 | -150.00 | -5% |
| Events Income | 4,200.00 | 7,735.00 | 3,535.00 | 84% |
| Profits from [Trading](http://www.leoisaac.com/fin/fin039.htm) | 14,800.00 | 12,900.00 | -1,900.00 | -13% |
| Other Income | 280.00 | 570.00 | 290.00 | 104% |
| **Total** | **40,580.00** | **47,605.00** | **7,025.00** | **17%** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | ***Budget*** | ***Actual*** | ***Variance*** | ***Variance*** |
| ***1 Jan - 30 Apr*** | ***1 Jan - 30 Apr*** | ***$*** | ***%*** |
| **Income** |  |  |  |  |
| Govt Grant | *13,333* | *20,000* |  |  |
| Sponsorship | *2,000* | *4,000* |  |  |
| Membership Fees | *4,667* | *3,000* |  |  |
| Tournaments | *3,333* | *3,000* |  |  |
| Merchandising | *2,167* | *4,000* |  |  |
| Other Income | *333* | *500* |  |  |
| **Total** | ***25,833*** | ***38,100*** |  |  |
|  |  |  |  |  |
| **Expenditure** |  |  |  |  |
| Advertising & Promotion | *1,000* | *1,800* |  |  |
| Athlete Development | *1,533* | *2,600* |  |  |
| Bank Charges | *100* | *100* |  |  |
| Motor Vehicle Costs | *1,000* | *650* |  |  |
| Salaries | *12,000* | *10,200* |  |  |
| Administration Costs | *7,000* | *7,700* |  |  |
| **Total** | ***22,633*** | ***29,300*** |  |  |
|  |  |  |  |  |
| **Surplus/Deficit** | ***3,200*** | ***10,425*** |  |  |

**Variance Calculations**

On the sheet below calculate the variances both as a dollar amount and percentage amount.